FY 2016 Advertised Budget Briefing for Supervisor Jeff McKay

BY THE
LEE DISTRICT BUDGET ADVISORY GROUP

MARCH 25, 2015

Overview: What We Will Cover

- Group reaction to the budget
  - The positives: bond rating fixes, police/sheriff funding
  - Areas of concern:
    - Sustainability
    - Lines of Business review
    - Diversify the economy
    - Employee compensation
    - Agency reduction process
- Transfer to the Schools
- FCPS – program specific ideas

FY 2016 Budget: Positives

- Comprehensive strategy provided to address bond rating agencies concerns
  - GF reserve levels (% of GF disbursements), CEX recommendations worth serious consideration:
    - Increase Managed Reserve Fund from 2%- 4% See below
    - Increase target balance Revenue Stabilization Fund from 3%-5%
    - Establish new reserve fund for economic development opportunities with target balance of 1%
  - Increase pension funding, CEX goal worth serious consideration:
    - Three pension systems combined funding ratio is 81.4%; goal is to reach 90% funded status by FY 2025
- Maintained discipline to not use one-time balances for recurring expenses
- Slightly increased funding to police and sheriff

AAA Bond Ratings Current Reserve Policy: Montgomery 10% , Loudon 10%, Prince William 8.5%, Fairfax 5%, Arlington 5%, Prince George 5%

Primary Concern: Sustainability

Budget must reflect a County government which is sustainable in the long term.

- No flexibility for increased revenues in largest source – real estate tax. Tax rate remains same.
- Critical infrastructure improvements deferred
  - Replacement/upgrade need is estimated at $26M per year
  - Budget is $2.7M or 1/10th of the estimated need identified in CIP
  - Addresses only 13 of 139 "urgent/safety related" projects identified to date. (Separate handout provided)
- $26M agency program requirements deferred to 2017
- FY 2017 budget as presented is not realistic
  - Starts with $93m shortfall
  - Adds 118 new FTEs/2016 program requirements
  - Assumes holding FCPS transfer to a 3% increase
    - FCPS FY 2017 budget projects $100M+ shortfall
  - No room for unanticipated needs

Concern: Lines of Business Review

Worthy effort if stated goals are met. Will be extremely staff-intensive. Process must be improved over previous LoB reviews.

- Must result in:
  - Definition of core services and levels of services
  - Clear process for determining funding priorities.
  - Funding priorities which align with approved 2015 Strategy for Economic Success and existing agency level strategic plans
- FCPS should be strongly urged to conduct similar LoB review
- For both County and FCPS, create structured ongoing public communication as part of the process to determine funding priorities. (Good model: process used by FCPS Facilities Planning Advisory Committee)
- Recommend Lee District Budget Group be reconvened to review LoB results.

(Separate handout provided)

FY 2016 Budget Concern: Diversify the Economy

Need to diversify our local economy.

- Federal government diminishing as key sector of the local economy
- BoS recently approved a strategic plan for economic development – strengthen implementation of the plan by:
  - Developing separate Action Plan with measurable outcomes
  - Establishing progress reviews to the Board of Supervisors.
  - Conducting an economic analysis using an accepted framework. Compare results with the 2015 Strategic Plan.
  - Aligning updates with Fairfax Comprehensive Plan and the LOB assessment.
- $4.12 million added for economic development "booster shot" positions necessary to review and expedite permit process – *need to make sure existing permit process is efficient and meeting needs*

Concern: Employee Compensation

MRA is not fully funded. Every effort must be made to resist balancing the budget at the expense of the workforce.

- Funds only half approved MRA calculation of 1.68%
- Will be viewed as a broken promise
- Workforce must be valued -- continued tight fiscal environment has resulted in fewer personnel having increased workloads
- Would need additional $9.46m to fully fund
- Urge funding be found for full MRA-- potential source could come from the Contributory Fund
  - Recommend Board's Auditor evaluate Contributory Fund – look at approval process, how often they are evaluated and how effectiveness is measured (Separate handout provided)

Concern: Proposed Agency Reductions

- Methodology for determining which reductions were taken is not clear -- did everyone play by the same rules?
- Appears that disproportionate levels and types of reductions are being taken, for example:
  - Human Services represent 10.9% of GF disbursements, yet 37% of the dollars and 62% of FTEs taken with reductions are from Human Services
  - CEX states reductions are not one-time, but rather are on-going and recurring yet savings from managing vacancies from some agencies make up more than $4m of total
- Unable to determine if further agency reductions are available to fund unmet needs (unlike last year, no "cuts-identified-but-not-taken" list)

FCPS Transfer

- Group takes no position on level of GF transfer to FCPS
  - FCPS budget process has improved, but we are still unable to confidently assess how much schools should reasonably cost and what is the appropriate level of transfer
  - FCPS is the only area with growth in 2016 Advertised Budget (from 52.4% of GF to 52.8%). The trade off made in County services is diminished funding levels for public safety, human services, parks and libraries.
- FCPS needs a long term strategy for sustainability
  - Should conduct LoB similar to County, FCPS Board use results to determine school programs which may no longer viable in the current fiscal climate.

FCPS

- FCPS Budget Progress – Positives:
  - Projections of FY 2016 projected expenditures & carryover appear tighter to what has historically been actual
  - Focus on classroom & school-based efforts continues to dominate
- FCPS Budget Analyses – Concerns:
  - Reinforced budget group's previous assessment of budget as lacking in measurable outcomes, transparency and independent evaluation
  - Demonstrated need for more emphasis on prevention & intervention as more effective and less costly than resolving problems after the fact.

(Separate handout provided)

FCPS

FCPS Recommendations:

- Urge BoS to require FCPS budget needs be presented in light of outcomes achieved (a la Baldrige model)
- Continue strengthening capacity for program audits and assessments
- FCPS strongly urged to develop countywide budget engagement & program assessments in light of economic realities

Summing up

Our key message: county government must be sustainable over the long term.

FY 2016 budget:

- Good: strategy addressing rating agency concerns, slight increases to Police and Sheriff's Office
- Concerns:
  - funding only ½ of promised MRA
  - process used to identify agency reductions
  - large amounts of agency requirements and critical infrastructural funding deferred

FY 2017 -- not sustainable:

- defers large amount of FY 2016 items
- assumes holding FCPS transfer at 3%
- does not allow for unanticipated needs
- projects $93M shortfall

Summing Up

- FCPS transfer – still unable to determine what our schools should really cost, tradeoffs made continue to diminish funding for county programs
- Lines of Business review – need to improve previous review process
  - define core services and levels of services
  - establish process for determining funding priorities.
  - link funding priorities to existing economic development and agency strategic plans
  - include a strong community engagement component
  - ***urge FCPS to conduct LoB review***

Critical Infrastructure Replacement and Upgrades

BACKGROUND: The Infrastructure Financing Committee, a joint School Board/County Board Committee, was established in April 2013, as a working group to collaborate and review both the County and School's Capital Improvement Program (CIP) and capital requirements. The Committee published a report with recommendations in February 2014. As a result, the County and Schools established an Infrastructure Replacement and Upgrades Capital Sinking Fund (the "Capital Sinking Fund") as the new budgetary mechanism for funding of Infrastructure Replacement and Upgrades requirements. Principal funding for these projects is to come from a joint commitment to devote a designated amount or percentage of carryover funds to the Capital Sinking Fund. The Committee suggested "ramping up" this commitment over three to five years until the Boards reached a funding level of 20 percent of the unencumbered Carryover balance of both the County and Schools budget not needed for critical requirements. In the 2014 carryover review, $2.85 million was the first contribution to the County's Capital Sinking Fund, consistent with the recommendations of the Infrastructure Financing Committee. The 2015 carryover review is yet to occur. The FY 2016 Advertised Budget continues funding at levels that defer critical infrastructure improvements.

DISCUSSION: For FY 2016, the projected county facility inventory is nearly 8.9 million square feet and this inventory is expanding with the addition of newly constructed facilities and additional properties. A large portion of our facilities require major reinvestments in building subsystems. Providing adequate funding to maintain our critical infrastructure is a must and its funding should be a budgetary priority.

Replacement and upgrade needs are estimated at $26M per year based on current assessment data much of which is nearly 10 years old; as well as industry standards (2% of the current replacement value). Some of the major work completed annually at County facilities includes the replacement of building subsystems: HVAC and electrical system repairs and replacement, roof repairs and waterproofing, carpet replacement, parking lot and garage repairs, fire alarm replacement and emergency generator replacement. Given current staffing levels, the complexity of many of the projects, and the timeline for completing renewal projects, the FY2016-2020 Advertised CIP estimates that approximately $15 million per year would be a good goal for critical infrastructure replacement and upgrade funding.

The FY 2016 budget provides $2.7 million in funding – 18 percent of the goal and 10 percent of the estimated need. If available Capital Sinking Funds were used, that still is only 37 percent of the CIP goal and 21 percent of the estimated need.

- Level of funding is consistent with the FY 2015 Adopted Budget Plan.
- Significantly limits number of category F projects (urgent/safety related) that can be done.
- Addresses only 13 of approximately 139 Category F (urgent/safety related) projects identified to date.
- Total goal FY2016-FY2020 per Advertised CIP - $62.7M.
- Cannot meet the need of category F projects unless funding is significantly increased or other sources of revenue are found.

Lines of Business Review

Recommendations for Improving the Process

BACKGROUND: A comprehensive Lines of Business (LoB) review is underway which will culminate in the spring of 2016 with a discussion by the Board of Supervisors and the community about funding priorities. The stated goals of the review are to help focus discussions on 1) understanding the Lines of Business, 2) deciding which programs should continue, and 3) determining programs which are no longer viable in the current fiscal climate.

DISCUSSION: The LoB review is an opportunity to gather data needed to identify County core services and funding priorities. We understand that the review template (what will be asked of agencies) is still being finalized. We analyzed the LoB process from prior years; the template must be improved for the review to be effective. The following areas must be addressed.

Mandates *The 2008 review asked whether the LoB was federally or state mandated. Additional information should be requested to help determine:*

- To what extent is the county legally obligated to provide the service?
- How is the level of service required by the mandate being determined and measured?
- How is actual performance being measured against expected outcomes?
- To what extent is service being provided beyond the minimum required mandated level?
- What portion of the service could be provided by other than county employees? Can some or all of it be outsourced at a lesser cost or combined with other programs (particularly for back office support services such as HR, IT)?
- Could some or all costs be recovered by non-county revenues?

Citizen Expectations *How critical is the service? The 2008 LoB asked agencies to rate services as Mission Critical, Mission Essential, Mission Impaired or Mission non-Essential. Definitions were provided. Is there a better way to parse this?*

- How is the service measured against an established strategic goal/objective?
- To what extent do residents expect the service to be provided?
- To what extent is the service currently being utilized? Is the service duplicated elsewhere?
- How is performance measured against expected outcomes?

Impact *What are the service's direct and indirect impacts on residents*?

- How is success measured?
- How will improvements be measured to assure increasing value for the investments?
- What would happen if the county were to eliminate or significantly reduce the service?
    - What are the direct and indirect impacts to citizens of any such reductions?

Funding Priority *How is funding priority determined?* When there are no clear funding guidelines for measuring or establishing priorities, across-the-board cuts become the default method for meeting budget shortfalls. This is not a sound strategy as some LoB activities will be more critical to the citizens than others.

- The LoB review should establish a process for determining funding priorities.
- County vision elements and Board of Supervisor Priorities need to be defined in operational terms that link to business lines and expected accomplishments. As they stand, they are too broad to be meaningful for this purpose.
- The BoS recently approved the *"Strategic Plan to Facilitate the Economic Success of Fairfax County"* and there are some strategic plans at the agency level. Where such plans exist, services should be clearly aligned to strategic goals and funding priorities reflective of the plan(s).
- Any transfer of function, staff or funding from one LoB to another should be documented to clearly reflect the extent of those adjustments so that funding, staffing, and performance trends can be tracked over time.